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WAM Leaders Investor Q&A Call
10 July 2020

Geoff Wilson Good morning, everyone. It's Geoff Wilson speaking. I'm the Chairman of WAM Leaders (ASX: WLE). Thank you very much for coming onto this call today. As you're aware, it's your company and we're here to communicate with you and take as many questions as you have. It's been a dramatic, dynamic or a tough 2020. Matt Haupt and Johnny Ayoub, who are the instrumental guys in terms of managing the WAM Leaders money, they will give you a little bit of a rundown of what happened last year but probably more importantly, look at the next 12 months and what they're seeing and how they're positioning the portfolio for the next 12 months. You would have been aware that the WAM Leaders Board met last week and thought it was pertinent to announce the final dividend a little earlier than usual. That was the 3.25 cents per share fully franked, to get a 6.5 cents per share fully franked dividend for the full year, a very attractive yield on the current share price. The reason why the Board wanted to communicate that clearly to shareholders is, it's seen with the banks and various companies cutting or deferring their dividends.WAM Leaders is in a fantastic position that they could continue to grow the dividend. That is the plan. I'd like to pass over to Matt now, who will take you through or reflect on 2020. Thanks, Matt.

Matthew Haupt Thanks, Geoff. Good morning, everyone on the call. I thought we'd step through the year that was, just briefly, just to give some of the process involved in going through the portfolio. You'd remember the first half of the financial year, we had a bit of reflation going back on, economic activity was picking up; things were looking quite good. In the background, you had the US Federal Reserve (the Fed) tapering, so they were winding back their balance sheet. Everything was looking pretty good. In October, we went quite bullish on equity markets. The reason why we went bullish was the Fed stopped their tapering and launched a repo program. A repo program is effectively providing liquidity in the short-term. What this did was give us a lot more imperative to invest in equities. We positioned the portfolio quite aggressively, ran our cash down. We were positioning a lot of the risk-on names and in particular, a lot of the names linked to China. Iron ore was a real key driver of that first half performance, along with the big healthcare companies, including CSL (ASX: CSL). We rode through that period. We were outperforming quite well. We were about 350 basis points up after the first half. Then we look into the second half of the financial year, kicking off in January. We saw January have an extreme point in valuations. That Fed repo program was injecting a lot of short-term liquidity and that was pushing up equities. We began to take a little bit of a risk-off approach within the portfolio.

Then, as you would have seen in February, the coronavirus impact started to spread globally and we went into the severe market correction, as a lot of people took a lot of risk off the table. The speed and depth of that was incredibly quick, predominantly because the market was inflated

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before this and because we just didn't know the duration of these impacts. What we did with the portfolio, within WAM Leaders we're quite nimble and active, so we identified the risk potential and unwound a lot of our risk within the portfolio. We added a lot of stocks as well, in particular gold after the initial fall. What you see with gold is, when gold is traded in the short-term, when people want liquidity, people sell gold. Even though gold is a good defensive hedge, initially gold got sold. We waited for that to clear and then we positioned quite heavily in gold companies.

We also went very deep within the consumer staples space, so Woolworths (ASX: WOW) and Coles (ASX: COL), because we identified the trends early that a lot of people were spending extraordinary amounts of money within those networks, predominantly because you couldn't eat out and you had to buy a lot of food. They were the only places really open on a continuous basis, so that was another trade. We continued with the iron ore trade as well. Iron ore, we were monitoring throughout the coronavirus spread the inventory stocks within the ports and also the utilisation within the steel mills. They remained very strong, so we held onto our BHP (ASX: BHP), Fortescue Metals Group (ASX: FMG) and Rio Tinto (ASX: RIO) and actually increased these weightings throughout the market downturn. With all those things in play, we managed to perform quite well in the second half. We got a lot of our stocks re-rated.

Then I guess in the depths of the crisis, a lot of opportunities stood out. There were a few I'll mention. One was Star Entertainment Group (ASX: SGR), the casino operator in Sydney and Queensland. That was trading well below its net tangible assets at a point in time, the stock price was less than the book value of its assets, which in market dislocations you get these incredible opportunities. That was one. Another one was Scentre Group (ASX: SCG), which is the shopping malls, the Westfields. That was trading at all-time lows, so we picked up a lot of those. Another company, Stockland Corporation (ASX: SGP), was trading at its 1991 level, so that was the last recession in Australia. These opportunities present themselves in dislocations and we took advantage of that.

Probably the more important thing is the year ahead – where do we go from here? This month, we're in a real testing phase. The market is being tested by the coronavirus spread. We're having second waves. This month will dictate how the rest of the year finishes, in our view. If you get local containment and economies or states don't have to go into wide, long-term shutdowns, the incredible policy support behind it will allow equities to rally. I don't want to get too bearish in the short-term, but we think this month is definitely a testing phase and the risk in the short-term is to the downside, but I think it would only last for a week or two before you get the second wave of policy support. If we have a second wave, we will get a second wave of policy support, so that's why you can't get bearish long-term, but you can get bearish in the next week or so, as we go through this phase, to see whether local containment works.

Whatever environment we face, we'll position for that. When I look at the positioning at the moment, we're quite neutral across most sectors. We're finding a lot of opportunity still within select names, but the real embedded trade I think that's left in the market, because valuations are expensive, is financials. We're just waiting on the sidelines, ready for this trade to open up. If you do get a glimpse of local containment on the virus, you'll start to see bond yields go up and the slope of the yield curve will go up, which is great for financial companies. That is the trade that we're watching and that could be a key trade over the next month or two. To me, that's the only real embedded trade left that's at a real price difference to the current market, whereas the rest of the market is quite expensive across most sectors. Tech sector you would've seen is having a great run as well, especially in the US. As we get low interest rates, those companies go up. That environment is likely to continue for the next week or two but, again, we're just watching some of the key data points out on economies as they re-open. They're all looking quite supportive. I guess the overall message is short-term, a little bit concerned, but medium to long-term, actually quite bullish, given the incredible policy support out there. Thanks, Geoff.

Geoff Wilson Thanks, Matt. In terms of the way that yourself and Johnny have been able to move the portfolio over the 12-month period has really delivered to all shareholders. I think you outperformed over that period by 10.4 percent. Congratulations to both of you. It's no mean feat. As a large shareholder in WAM Leaders, myself and everyone else, we're very much appreciative of that. I remember the other day, yourself and Johnny were talking about the hand-to-hand combat. Johnny, do you want to expand on that comment?

John Ayoub Absolutely. I guess what we face these days is faster information flow. You're no longer able to set and forget and hope that your stock selections are right and let them play out over a six to 12-month period. Given the volatility that we face, given the prevalence of thematic investing, we found that the decisions you make today may be completely wrong tomorrow. The wholesale movements in markets dictated that we needed to be far more nimble and ruthless in our decision making process than previous market conditions. Quite often, we would be positioned one way and we would have to forego our favourite stocks in the portfolio and completely flip the other direction. One day, we're defensive and we're materially overweight a Woolworths or a CSL and the next day, we're selling those to make wholesale changes in the market, based on indictors that Matt and I look at on a daily basis to help us try to outperform. It was certainly a battle. You're no longer investing on your fundamentals of cashflow and the like on a short-term basis. You're investing on thematics, on large global macro events and it dictates wholesale changes to the portfolio. There were a lot of sleepless nights, particularly in the months of February and March. As we get to where we are today, we're at quite an inflection point. Even though you try to take a little bit of time to reflect on FY20, unfortunately in our job FY20 is a long time ago. Now we're into the midst of FY21 and we've got to continue to make those decisions. The outlook is more volatility from our standpoint. We think the markets are certainly nowhere near in clear air and we've got to continue to battle daily with the thematic investment and the macro market, and hopefully continue to make decisions that add value to shareholders.

Geoff Wilson Johnny or Matt, obviously you're trying to buy undervalued growth companies and trying to find a catalyst that will change the valuation. Then with the other part of the money when you're sitting in cash, you're looking for those trading opportunities. In terms of the portfolio now, for the period ahead, how is it currently positioned?

John Ayoub Given Matt's comments earlier around short-term bearish, somewhat optimistic longer-term, we've taken a balanced approach to the portfolio today. We haven't taken any dramatic directional bets from a sectorial standpoint. What we've decided to do is go and pick the best stocks within each sector and try to generate alpha that way. Until we see a clear direction from a macro standpoint, what we're doing is we're taking best in class within sectors and hopefully deriving performance that way. Within commodities, we'll buy all the minerals because we've got a positive disposition to base metals. Within oil, we'll own Santos (ASX: STO) because we think it's the best in class there. Within discretionary consumer sector, we'll buy Star because there's asset backing. What we've tried to do is stick to our principles of buying best in class, and the way we've controlled risk is by taking a more balanced approach to the overall portfolio.

Geoff Wilson Excellent. We'll pass over to James McNamara. James, he runs our corporate affairs area, and James will take us through the questions. I know we've had some questions that've been sent in and there will be some coming in on the line. I'll pass over to James now.

James McNamara Thank you, Geoff. The first question from the webinar set is from Andrew. He's asked, "WAM Leaders is providing a fully franked dividend yield close to 6 percent. How are you able to deliver a higher yield than leading large cap peers, such as AFIC (ASX: AFI) and Argo (ASX: ARG)?" Geoff, maybe best if you take that one.

Geoff Wilson Good question, Andrew. The AFICs and the Argos, they're more traditional LICs. How they pay their dividends is the dividends they receive, they pay out to you. They do a fantastic job. They're very cost efficient and they've performed over a long period of time. In terms of WAM Leaders, first of all, I think AFIC and Argo are trading around NTA; WAM Leaders is trading at a little bit of a discount to NTA. The fact that it's a bit cheaper than its NTA means the yield is fractionally higher. Because our yield is quite a bit higher than those other entities is because how we pay a dividend, the companies we invest in, we get the benefit of getting their fully franked dividends. Also, we supplement that, because as you heard from John and Matt, we are very active and nimble in terms of investing in the portfolio, so we're realising profits along the way. We pay tax on that and any realised profit, which gives us some more franking then to pay out the shareholders. Our dividend is a combination of the dividend we receive and the benefit of those trading profits. At the moment, with the dividend, and we mentioned in the announcement the other day that we've got nearly two and a half years of dividend up our sleeve in terms of the

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profit reserve, so as we make more profit, then we'll continue to be able to grow those dividends over time. That's the plan.

James McNamara Thank you, Geoff. The next question is for John and it's from Malcolm."Is it better to invest in hedged or unhedged global equities?"

John Ayoub Thanks, Malcolm. Probably more a question for Catriona. I guess there's two ways of looking at it. Global equities, investing from Australia, you have a natural hedge somewhat by owning more offshore stocks and then you've got the exposure to US dollars or Great British pounds. I guess ultimately, it comes down to your own risk profile, and we can only give general advice on these calls. I guess ultimately, you'll take a view on the way that you view the Aussie dollar relative to global peers and in particular, against the US dollar. A hedged portfolio typically just generates the alpha of stock selection, whilst an unhedged gives you a little bit more leverage, so to speak, on the direction of the FX movement. Ultimately, it comes down to individual risk profiles.

James McNamara Thank you, John. Next question for Matt, from Frank. "How do you view the market situation in September 2020 when we reach the fiscal cliff?"

Matthew Haupt Good question, Frank. It's one we're looking at quite closely. We expect more policy support to kick in. You would've seen rumours of, I think it was July 23rd, the announcement from the federal government. What we're likely to see is more fiscal policy responses and in the US, there's talk of it as well. What they've done so far has been incredibly supportive. It's been needed. They will not back out now; they're already too far, too deep. They will not step away and risk any fallout on the economy. That being said, if we get a great containment over the next month or so, the policy might be shorter term. I think what we're seeing is policy makers are willing to step in and do whatever it takes. We've seen that multiple times. The dialogue from central bankers and from fiscal commentators or policy makers is they'll do whatever it takes. The cliff is coming, but I think the second wave of the virus will be met with a second wave of support. That's our belief at the moment. Thanks, Frank.

James McNamara Thank you, Matt. The fourth question is for John, from Phillip. "Any reason why Newcrest Mining (ASX: NCM) over Northern Star Resources (ASX: NST)?"

John Ayoub Thanks, Phillip. You've found a topic that Matt and I debate quite often. For us, Newcrest has been a laggard in the gold sector. It's the largest and most liquid, but it has probably the most prospective assets within their portfolio. I think the market has under-appreciated Red Chris and Oberon. Looking forward, we think Newcrest, given its lag, its peers in Evolution Mining (ASX: EVN) and Northern Star and Saracen Mineral Holdings (ASX: SAR) in particular, we've taken a view that we should get some mean reversion, so to speak. Newcrest should start to deliver, particularly as they shore up the long-term value in these assets. Sure, there are some issues in Papua New Guinea around a few of their assets and domestically, but we think longer-term, Newcrest will start to outperform the sector. On Northern Star, the quarterly update this week was a positive. The last few quarters have given us some concern around cashflow, around operations, particularly in Alaska and Pogo. We took a conservative approach around Northern Star. They have disappointed the market over the last 12 months on a few quarterlies. With that, the share price continues to rebound, so we took a more conservative view and prefer Newcrest. We've preferred Saracen, which gives us a fair bit of overlap with Northern Star, from the Kalgoorlie super pit. Our preferences have been Newcrest and Saracen. We have played Northern Star from time to time, along with Evolution. But for us, Newcrest is our preferred play right here, right now.

James McNamara Thank you, John. The next question is for Matt, from John. "Australia is a small economy on the world scale. What are the major international events and trends that will affect our economy and share market?"

Matthew Haupt Thanks for the question, John. I guess for Australia, our biggest influence is our biggest trading partner, which is China. We are really beholden to what the Chinese economy does. So far this year, it's looking incredibly strong. Policy makers have been helping the economy out. Quite interestingly last week, through official Chinese media, they basically said they want to inflate the stock market. On that day, the Chinese market was up 5.7 percent and then continued. I think it's up 12 percent in the last week or so. That to me is a great signal. For us, we're looking at that as more support for the Chinese economy. I think on that day, there was 850,000 new brokerage accounts opened on that day. The Chinese love to speculate. That is a great sign that the government is going to be there to inflate their asset prices. For us, that was a telling signal. Quite often, the most subtle notes or speeches or these little things you can pick up, you can make a lot of money out of them. You've always got to be reading and looking at these things. I think most of the commentary I've seen hasn't picked up on this, but it was out last week and it's put a rocket up the Chinese share market. For us, what affects the Australian economy – China. Then you've got to look at the traditional macro things, like interest rates, and the Australian dollar. They're the two big factors we've got to look at. At the moment, you would've seen yields going down, so people are putting money into bonds; they're buying bond because they're fearful of equities or risk. That trend is continuing. In the end, that's supportive for equities, lower interest rates. But at the moment, the fall in yields is a negative signal for equities. Again, it's quite volatile. The piece I was reading last night was showing how short-term the market is. Basically, if you buy a 10-year Bund, the German 10-year Bund, you're guaranteed a negative return. If you held it over the last three weeks, you're up 12 percent. The market is very short-term focused and we have to trade these markets on a very short-term viewpoint at the moment. Hopefully, once things clear and we get back to some normality, we'll go back to medium/long-term view investing. But at the moment, the biggest thing is China, FX, interest rates and the availability of credit spreads.They're the main factors.

James McNamara Thanks, Matt. We'll stay with you. The next question is from Robert. "What is your outlook for the banks, given high unemployment and loan deferrals? Have the bank stocks priced in a worst-case scenario?"

Matthew Haupt Again, on a short-term basis, I think there's some weakness in the Australian banks. I'm talking real short, like one to two weeks, as the Victorian situation puts a lot of fear into how the economy is going to bounce back. If we get further spread within other states, obviously banks are not a buy. If the Victorian situation can be contained, the US can be contained and we start getting interest rates push up and the slope of the yield curve goes up, the banks are a buy. That's what we're watching at the moment. It's going to be a really big call over the next month or so, but it's too early to say they are a buy. They're looking very interesting as those things play out. On the flipside, if the spread of the coronavirus happens in New South Wales at a stage where we have to do a lockdown, they are not a buy. Very much on the knife edge at the moment, but a trade we're looking at. They do look like good value if containment can happen. That's what we're watching at the moment. On dividends, they're going to be obviously reduced by a fair bit. Whether they pay them or not or defer them is still being debated. I guess they'll be talking with the regulator, APRA, during this process. So, expect much reduced dividends, if dividends at all.

James McNamara Thank you, Matt. The next two questions are on China and they're directed to John. The first is from Daniel. "Love to hand to hand combat paradigm. Excluding resources, how are you positioned with respect to exposure to China, and how do you consider the risks and opportunities in 2021?"

John Ayoub Thanks, Daniel. That's a very topical question. I guess with China, putting aside the political stoush, and I'll come to that in a second, the main exposures, as you rightly point out, are via commodities and China being the largest consumer of Australian commodities. Outside of that, the A2 Milk Company (ASX: A2M) is probably the prominent way that we're playing it today. Demand for infant formula continues to grow the safety and brand in Australia; even though it's a Kiwi brand, it's listed here. It's the proxy they're utilising. Moreover, the other ways we get exposure to China into Australia is the second derivative trade. If you look at Australia in the context of a global safe haven, so if you compare the way that Australia has been rather resilient to coronavirus in comparison to the US and the UK and other markets, we think once borders do open up, Australia will be a large net beneficiary of Chinese money flows in the form of property investment, continued property investment, and in education. IDP Education (ASX: IEL) is one I know that the WAM Capital (ASX: WAM) boys really like, once markets open up. We think Australia will be a net beneficiary when borders do open up of Chinese tourism, property investment and education. They're probably the sectors that we'll look to. There's a little bit of water to pass under the bridge from the political sphere before we see those stocks really rally. You could call that Star, you could call that Qantas Airways (ASX: QAN), you could call that IDP; the Lendlease Groups (ASX: LLC) of the world. They're the stocks which are the second derivative to bullish Chinese markets in Australia. And the second question, James?

James McNamara Thank you, John. The next question was from Yunhao, and it's drilling into that political dimension. "With China tightening up imports from Australia such as coal and beef, will there be an impact on the performance of Australian companies in general?"

John Ayoub Absolutely. It's a clear shot over the bows of the political powers in Australia from their Chinese peers. If you look at what the Chinese government has done, or I shouldn't probably say Chinese government, but just the way that the trade agreements are working as it stands, they've certainly picked commodities that can be replaced from other markets. There's a surplus of coal globally and cattle can be sourced also from Latin America and other markets. It's a clear warning shot to Australian policy makers to yield, play nice, and we can all move on together. We're all going to have differing views on how this plays out. The way we look at it is that there are other commodities and assets that can't be replicated elsewhere. You look at in particular, iron ore, copper, those commodities certainly can't be replaced by other markets, given supply side constraints that you're seeing in Brazil or other main producers of those commodities. We think the BHPs, Rios, Fortescues and Oz Minerals (ASX: OZL), there is a certain level of safety to those companies. On the flipside, New Hope (ASX: NHC), Whitehaven (ASX: WHC), Australian Agricultural Company (ASX: AAC) and the like, they're certainly going to bear the brunt of any dispute. Even barley operators, so GrainCorp (ASX: GNC), they will face some challenges from Chinese policies towards Australian imports. There's still a lot of water passing under the bridge here. The noise won't go away for some time. However, the big Australians are somewhat protected from a corporate standpoint. That's a great question.

James McNamara Thank you, John. Next question is for Geoff. "The 6 percent yield mentioned earlier, does that include franking?" That's from Tim.

Geoff Wilson Thanks, Tim. The actual yield, the share price is about $1.13 at the moment, and the annual dividend is 6.5, which I think that's about a 5.75 percent fully franked yield. That dividend is fully franked. If you happen to have it in your self-managed super fund and you're in pension phase and you get a refund, then that grosses up to about 8.2 percent in terms of the money you get back as well.

James McNamara Thank you, Geoff. The next question is from Chris. "WAM Leaders appears very active relative to other large cap investors in Australia. What does that exactly mean for shareholders?"

John Ayoub Active management means we turn over the portfolio more aggressively than a passive index fund or the like. In our instance, Matt and I are both analyst, portfolio manager and trader, so we're at the coalface day in, day out. We're trying to identify opportunities. Unashamedly, we're willing to pick up pennies in front of steamrollers, the old analogy. If we can make a basis point for a shareholder, we will. We have that flexibility within our mandate under the trading side of the mandate to allow us to trade more actively to make shareholders money. Ultimately, that's the decision making process that we undertake on a daily basis. We are happy to turn over the portfolio in pursuit of returns.

James McNamara Thank you, John. Next question is for Geoff, from Mark. "The ability of companies to raise up to 25 percent of capital for selected investors is a dilution of capital and a rip-off for most retail investors. What are you views on this?"

Geoff Wilson I agree wholeheartedly. In the Murray Review, we put in two submissions, just saying during the GFC we talked about how much retail investors missed out on. Off the top of my head, it might have been $17 billion they missed out on. More recently, I think in the last month, Kate Thorley, CEO of Wilson Asset Management, put an opinion piece in the Australian Financial Review, again making the same comments. We are very much for flattening the playing field. To me, it's very archaic, what was brought in. I don't know if you remember back when they all of sudden said you need a prospectus, if you're issuing any shares to any retail investors, which ended up cutting the retail investor out from being involved in placement, or you had to be, in theory, a sophisticated or wholesale investor. Yes, we are 100 percent on your side. We think it's grossly unfair. Any opportunities we have to try to get them to flatten that curve and look after all shareholders, we're probably one of the few institutions that was prepared to do that, because we just think it's totally unfair.

James McNamara That's great. Thank you, Geoff. The next question is for each of the speakers, Geoff, Matt and John, from Alice. "What lessons can be taken out of the most recent correction that you can share?"

John Ayoub What we've learnt from this correction which is different from other ones is just the speed of information flow, access to real-time data, the ability of governments to address concerns ahead of the curve, as opposed to reacting. Typically in a crisis, you have an event, economic crisis, then recovery. The recovery normally flows after governments start to enact policy and stimulus to bolster consumers and sentiment. What we've seen this time around is you've had the crisis, which is coronavirus spreading. At the same time, you've had the recovery underway before you see the reality of the economic fallout. I guess the lesson this time is that we have better real-time data today than ever before and you need to be more nimble and more reactive to that data. You can't get too complacent and reliant on past crises to establish portfolio construction.

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Matthew Haupt I'll just add, I guess the lessons are you look back over history and you try to draw parallels, like John was mentioning. Then you try and differentiate the situation you're in.The main thing is when governments step in and intervene in markets, you have to pay attention and remain invested because they can have a dramatic effect on asset prices, which we've seen numerous times now through different scenarios. I guess the main difference here was the front-end loading of support, plus we were not deflating a bubble versus other recessions where we've had property bubbles or asset price bubbles. This was a forced shutdown, it was a shorter duration, and there wasn't the pain of deleveraging a bubble. That's the main reason we stayed invested. Of course, if this duration continues, there will be scarring of the economy and we will go down that long path of deleveraging, if we can get back up and running. The main lesson is an old one, 'don't fight the Fed', remains true to this day. Every time they step in, you've really got to go long equities, because it's worked countless times.

Geoff Wilson Just from my perspective, it's really being flexible is the main lesson. You collect all the information, as the guys are saying. It looked like it would take a long time for the market to bottom out, but then just the speed at which you're collecting new information, as Johnny said, and the Fed and all the fiscal and monetary policy on a global basis was so swift. With that new data, collect that data and then make your decisions with the new data. Don't get caught up in what you've seen historically. Be prepared to change your view. The great thing about the market is it does humble you.

James McNamara Thanks, everyone. The next question is for Geoff, from Michael. "Do you think you will be able to sustain the good dividend you are going to pay in October, given that most companies have significantly cut or even suspended their dividend?"

Geoff Wilson I'm one of the Board members. My view is yes. We'd like to maintain it, if not grow it. Obviously, it depends on how the portfolio performs over the next six-month period. The Board will make their decision for the interim dividend when we get to that period. Yes, the plan would be to gently grow the dividend over time and because we've got already a profit reserve which has got nearly two and a half years in, we could pay a dividend for the next two and a half years without making any more profit, at the current levels. We don't need to cut our dividends, like other companies may have to.

James McNamara Thanks, Geoff. Matt, the next one is from Larry. "Do you think the tech sector will continue to rally? Or is it a bubble?"

Matthew Haupt Great question, Larry, one very topical at the moment. If we've got one blind spot, John and myself, it's the tech area, where we prefer companies that make money and have reasonable valuations. That sector does not have reasonable valuations. My thoughts, it's really predicated on again back to the coronavirus. If we get an economic recovery coming out of this, those tech stocks will go down a lot. I'm talking about those ones not linked to the economy, but just on silly valuations. Yes, we are in a bubble, definitely in a bubble. The valuations are silly; they should not be where they are. What will pop that bubble is economic recovery, when rates start moving up. At the moment, money doesn't want to move out of equities and they're just buying anything that's supported on long duration. When we talk about long duration, it's companies that have a long growth profile and not really making much money, when these are the most sensitive to interest rate movements, and that's what we're seeing at the moment. Its yields have been falling; these companies have been going up. The NASDAQ, I'll talk about that one. It's the most stretched we've seen it in a very long time, since 2009, and we're approaching the tech boom bubble back in the early 2000s. Yes, I'd say we are in a bubble. I don't know when it pops, but it will be quite spectacular when it does pop. When we have low interest rates, it's hard to see it popping in the short-term. But if the virus is contained and rates start moving up, look out for these names.

James McNamara Thank you, Matt. Geoff, the next one is for you, from Rob. "How will you get WAM Leaders to be at 100 percent of NTA? The question there is trading at NTA."

Geoff Wilson When we floated WAM Capital – I think I was the only one there then; Matthew, but he's left – back 20 odd years ago, for the first couple of years that traded at a discount, even though we were paying very high dividends. After about two and a half years, then it started to trade at a premium. With WAM Leaders, our goal will not be getting it to trade at NTA, in theory, it will be ideally for it to trade at a premium. What that is, it really is a supply and demand situation, and that happens over time. As Matt and Johnny continue to perform, fantastic year last year, significant outperformance, and as we can continue to maintain that dividend and as people see that it's sustainable, then you'll find that people will move out of other entities that may be yielding less and can't deliver that sustainability of dividend. Then the price will move to NTA, if not a premium. We've got quite a detailed shareholder engagement communication strategy, which is trying to inform the people that currently are shareholders, so they understand clearly what we're doing and what we can deliver. That's one of the reasons why we announced that dividend early, because we didn't want anyone selling. It was interesting, we announced the dividend and the share price I think went up 5 or 6 cents. We proved that it was the right thing for the Board to do, to announce the dividend early, because we didn't want anyone selling with the expectation of thinking that we might cut the dividend or not. With some of the questions we've already had on the call, these are obviously WAM Leaders shareholders questioning will we be able to pay the same dividend next year or the year after. Obviously, that is our plan, if not grow it slightly. As you get the track records, as we continue to deliver the returns and the yields, you'll find the share price does get to NTA, if not a premium. At WAM Research, that was a lot longer; it took us longer to get it to NTA, if not a premium. I think it took us seven years. It now trades at a 20 percent plus premium. I just noticed while we're talking, microcaps are trading at quite a premium as well, a bit of a premium. The two of ours which are the most recent ones, that's WAM

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Leaders and WAM Global, I'm confident they both will trade at NTA, if not a premium, and that's because they've got newer share registers, they haven't been around for so long. Some people don't really understand how we operate. As they get to understand us well, the share register sort of tightens up. We've seen that happen quite a bit with WAM Leaders. It did trade at a lot bigger discount a couple of years ago and now it's nearly at NTA. I would say over the next 12 months, you'll probably see it move to NTA, if not a premium.

James McNamara Thanks, Geoff. The next question will be our final webinar question before we move to telephone callers. It is for John. "What emphasis do you put on the international versus domestic earnings of the underlying holdings?" This is from Bruce.

John Ayoub Thanks, Bruce. The easiest way to answer this question is to give you some insight into the way that we make out decisions within WAM Leaders. When we invest, we have two approaches, which is a top-down approach or a bottom-up approach in stock selection. Quite often, international earnings fall in that bucket of top-down. What I mean by that is Matt and I will canvas a number of factors to identify where we see positive tail winds from a macro perspective. Quite often, we'll say we like the US dollar, we like exposure to the US economy or to Europe or to emerging markets. That top-down approach will then allow us to go and canvas the ASX to find stocks that have the best exposure to that. Once we kind of drill down on that level, we'll be able to identify stocks within sectors with the right FX exposure or the right geopolitical risk to help us identify that international versus domestic trend. We don't start on the basis that we want to get more international or verse more domestic. What we do is we look top-down and try to identify within our process where we want to get that exposure, then we drill down to the stock level, and then from a stock level we'll make the selections based on that. That's probably the clearest way we can answer that question.

James McNamara That's great. Thank you, John, and thank you to everyone who's joined us on the webinar. There's just under 300 people there. We're now going to move to telephone callers.

Caller First of all, I wanted to say I've asked you and Matt for some time about putting the top 20 holdings in and you've delighted me by putting in 30! I want to thank you guys for being so open about that. That's much appreciated by myself and I'm sure by many of these shareholders as well. Having said that, just a few comments or questions. The first one was two stocks you don't hold in this portfolio are Coles and Brickworks (ASX: BKW). I just noted that your comments were that you had best in class, Woolworths and Wesfarmers (ASX: WES), and no question about Wesfarmers. My thoughts on Woolworths have been quite expensive. If you could just comment on those two stocks first, thank you, that's Coles and I know Brickworks are held in one of your other funds.

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Matthew Haupt Thanks for the question. On Coles, we actually do own Coles; it just doesn't come in the top 30 there. We've ramped Coles up and down a lot over the period. Coles was almost approaching 3 percent at one point in time during the crisis. Then we sold it down and you would've seen a couple of blocks come out from Wesfarmers and we took the opportunity to trade round in those. Coles is sitting in our portfolio around 1 percent of the fund at the moment, so we've increased it again. I still think operationally, Woolworths is better, but you're right, it is more expensive. I guess with Woolworths as well, you've got the hotels which went into shutdown and are coming out again. Woolworths traded really well, considering the shutdown; it was about 10 percent of earnings before interest and tax (EBIT) of their business. Woolworths actually traded tremendously well through that period. On Brickworks, WAM Capital has Brickworks. They did sell out of it, but I think they've got another holding in it now. We had other exposures. Again, Brickworks is a great company. The liquidity for us was a bit low, so that was probably the main reason. We had other holdings. We had James Hardies (ASX: JHX) as our main exposure for a period of time versus Brickworks. That was the main reason, liquidity. If we took a position and WAM Capital took a position, it becomes a very large position, given liquidity. Agree, it's a good business, but just not for the Leaders portfolio at this point in time.

Caller The other question was just on the portfolio construction. I notice very recently that Berkshire now have one third of their assets in Apple (NASDAQ: AAPL), which seems to be fairly high but they obviously back their thoughts pretty strongly. They've got 42 companies. I just wondered, from a portfolio construction point of view, how many companies do you think it's ideal to hold? Or does it just get too much at some point?

Matthew Haupt That's a great question. On portfolio construction, it really changes with the market. When we have great clarity on the direction of the market, we pull in the number of stocks in the portfolio to a much lower number. It could range between 20 and 30 stocks. That's a reasonably concentrated portfolio. When there is a lot of uncertainty and risk around, we generally spread the portfolio a bit wider, just a basic function of risk and trying to manage risk. It could go out between 50 and 70 stocks. You'll see us swing the concentration around, depending upon the underlying dynamics. We'd love a stable environment, low volatility environment. You'd see the portfolio run between 20 and 30 stocks ideally, as we have greater conviction on the risk involved in those positions. It's really a function of risk of the market and clarity of direction. In markets like this at the moment, very much uncertain, we spread it a little bit wider.

Caller Again, thank you very much for the excellent performance and keep up the good work!

Matthew Haupt Thanks for your support.

Caller I just wanted to find out why you've gone wrong on Myer (ASX: MYR) and what do you think of Myers in the long run?

Geoff Wilson Effectively, what we try to do is find a catalyst when we buy a company that the rest of the market doesn't necessarily focus on. It can re-rate the company. With Myer, the catalyst was the new management team, John King. We started buying Myer a couple of years ago now, at about 40 cents. We understood it was tough business and it was a tough industry. Our view was that John would significantly turn the business around, getting costs out of the business, double the profit and the share price would double. That was the theory. Myer is mainly in WAM Capital and in that portfolio it makes up less than 0.5 percent of the portfolio, so it's pretty irrelevant. Obviously, what happened was coronavirus hit. The question is do we sell out or do we hold? We looked through the various companies with the new economic environment that mightn't make it, and Myer was one of those that came into that category. Another one was Virgin (ASX: VAH); we sold out of Virgin. We decided that we'd ride it through with Myer. The mistake was not identifying that coronavirus was going to occur, only because we had 6 percent. Do we sell out at 20 cents? Our view is that over the next few weeks, they'll announce refinancing. We still believe John King is doing a good job and currently, we're a holder. That's our current view.

Caller Thank you very much.

Caller G'day, gentlemen. Thank you very much. I've been with you people for nearly 20 years now. Keep up the good work, you've given me great lifestyle. What is your opinion on Santos, which is in the oil and gas sector, and Suncorp (ASX: SUN)? Thank you.

Matthew Haupt Santos we own in WAM Leaders. It's around 3 percent of the portfolio. It's our favourite exposure within the oil and gas sector. As you would've seen during the crisis, you had that flash crash in oil. Thankfully, we were able to pick up a lot of those oil names and Santos is the leader. When we look at companies, we want good management. A big tick for Kevin. He's done a fantastic job. He's got the balance sheet in order. Santos, if they went through what happened this year a few years ago, they probably would've gone bust. But Kevin has done a great job deleveraging. They've got optionality on a lot of assets onshore and offshore. For us, a clear winner in the oil and gas sector. On Suncorp, it's a tough one. In that space, they've got the bank and insurance arm. The banks are doing it quite tough, as we know. Insurance is having a pretty good time. They've got new management in there in Suncorp and they're doing restructuring at the moment. It feels a bit messy for us. We don't own it in WAM Leaders. Our favourite exposure is QBE insurance Group (ASX: QBE) at the moment. QBE for us has got the most upside in the insurance sector. It's got a few catalysts to come out over the next little while, as the stock had been pushed down over fears around business insurance. We think that outcome will be favourable. For us, QBE. But watching Suncorp quite closely, we're not invested yet. We'd be looking for an opportunity. If the price started with an eight, we'd be very, very interested in the low eights. That's our area where we take interest in Suncorp at the moment.

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Caller Thank you very much, gentlemen. All the best.

Caller I want to ask a question about Afterpay (ASX: APT). I understand one of the WAM LICs had Afterpay and they were in the top 20 investments. Do they still own Afterpay?

Geoff Wilson It would be great if we still had the initial amount we started with! I think we were working out what it would be worth. Were you boys on the call when we were talking about it the other day? Does anyone remember the figures? It was something like we would've had four or five hundred million dollars' worth of stock in it! WAM Capital and WAM Active (ASX: WAA) do have positions in Afterpay. We took some of the placement the other day, the selldown. Unfortunately, valuations, like the boys were saying with technology companies, have run away. When we bought Afterpay, in the early days we bought it more from a research perspective. We identified the potential growth and we could see the catalyst that would help re-rate it. Up around here, it's very hard to find the valuations that make it attractive from our perspective. It's more from a momentum and trading perspective; that's the other part of the portfolio, if we can buy something at a bit of a discount and then make some money from that perspective. We're holding it, but we're holding it with that expectation or outlook.

Caller Thanks, gentlemen. I'm just wondering what your opinion is on Aristocrat Leisure (ASX: ALL)? Thank you.

John Ayoub There are two sides of the business, as you're aware. There's the land-based slot machines and then there's the digital business. What we've seen during the coronavirus crisis is that the digital business has been a lot more resilient than a lot of people had anticipated. The uptake of digital gaming via phones and apps and computers at home has shown the strategy that the management team of Aristocrat undertook two to three years ago starting to pay dividends now. A lot of their games, in particular Raid, are doing incredibly well. That's the higher multiple part of the business. We still think that there is some upside from a valuation perspective on that half of the business. Where there's a little bit more challenge is around the traditional land-based casino business. As we all know, casinos for the most part have been shut and are slowly reopening globally. As they re-open, there is limited floor space. What we're trying to work out now is how does Aristocrat perform in that environment, which may stay in place for the next two years? If you look at that backdrop, it's going to be rather competitive, given that most floors are going to be running at 50 percent of normal capacity. The view that we've taken is that Aristocrat will be a beneficiary of this. However, the turnover on the floor may be somewhat reduced, given they participate in the turnover of a number of these machines, in the US in particular. They are best in class today on the land-based side of the business. A lot of their peers, including Scientific Games (NASDAQ: SGMS), IGT (NYSE: IGT), Everi (NYSE: EVRI), they will struggle under their debt burdens. We suspect if the crisis was to pass longer, perversely Aristocrat will get stronger. If the recovery were to happen a little bit quicker, that may allow some of their competitors to stay

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afloat and rebound and be a bit more aggressive. What we've seen today is Aristocrat have been very aggressive in supporting the casinos, ensuring that their machines are the ones that are being turned on, whilst their peers are the ones that are turned off. I think structurally, it's in a better position than what it was, but the earnings headwinds may be there for some time. We still really like it; it's just trying to pick that inflection point where earnings and that market dominance kind of coincide together.

Caller Thanks, gentlemen. Keep up the fantastic work. Love you all.

Caller The question I would like to ask is Johns Lyng Group (ASX: JLG), I was wondering if we've increased our holdings in it? I'm amazed at them that they've put out, I think, three profit increases in the last six months.

Geoff Wilson That's held in WAM Capital and WAM Research (ASX: WAX). It's really an undervalued growth company that Oscar and his team identified, and then we could see the catalyst for the re-rating. One of those catalysts was obviously the work they get from the bushfires, etc. We are still holders. You tend to find with companies, just as you get one downgrade, there will usually be a second or possibly even a third downgrade, and you tend to find the companies, when they have upgrades, then there could easily be a second or if not a third. We think it's a very well managed company and we're comfortable with it at the moment. Obviously, it could well get to a price where it gets too expensive, but the boys are happy with it at the moment.

Geoff Wilson I think that was the last question. We have gone over the hour. Thank you all for your support and your interest. Thank you very much for calling. If you have other questions that we haven't answered, this is your company – we're doing this because you allow us to do it on your behalf. We love investing. We're very passionate about it. We love playing the game and we love winning. I can't thank you all enough for allowing us to do that. Congratulations to Matt and Johnny, who have done a fantastic job in terms of managing this portfolio. To me, it's just a matter of time before the shares trade at NTA, if not a premium. Because of all their good work, we've got the base that we're actually increasing dividends, while a lot of companies are deferring them or cutting them. Thanks for your support. The plan is to continue to grow WAM Leaders and to provide return to shareholders. Thank you very much.